

MILLENNIALS, TECHNOLOGY & TIMING

Change is the one constant in real estate, hence the importance of timing above all else. The millennial generation and technological advances are today's biggest change agents. Understanding these forces at work is vital, as well as broad cyclical trends.

Millennials

Who are the Millennials, and why do they matter so much? Consider a few facts:

- Largest generation in the United States, estimated at 75 to 80 million, currently aged 16 to 36 (age cohort born from 1980 to 2000).
- Comprise 45 percent of the current work force, and 75 percent by 2025.
- First generation to grow up with the Internet.
- Greater tendency to get married later and defer home ownership.
- Grew up in the sharing economy (ex. Uber, Zipcar, Airbnb), shaped by two pivotal events: 9/11 and the Great Recession.

How have Millennials specifically impacted the real estate market? Most obvious is the tidal wave of apartment demand. The significant increase in co-work space and non-traditional office space is due to growth in entrepreneurial start-ups, independent workers, and a preference for collaborative work environments. First-time home buying has stalled due to the inability to raise the down payment, qualify for financing, and desire to retain mobility. This will change dramatically in the coming years since the vast majority of Millennials would prefer to own homes, according to surveys.

Technology

Since commercialization of the Internet only began in 1995, and the iPhone was introduced in 2007, it is easy to grasp how much technological change has shaped the way we live. This has enormous implications for the real estate industry, but the impact varies greatly by property sector. For instance, office demand has been reduced by the elimination of most clerical support staff, telecommuting, and more efficient space layouts. Annual office absorption in Atlanta, even during the current economic expansion, is paltry compared to the mid-1980s and late 1990s, despite the growth in technology companies.

The industrial market has benefitted greatly from the explosion in ecommerce fulfillment centers. Unlike the office sector, absorption and new construction have been at record levels the last three years. Retailers have obviously felt the brunt of the shift to online merchandising.

The Internet of Things (IoT) promises another wave of activity as internet-connected computer technology is integrated into non-computer products. Honeywell recently announced the creation of a new business unit focused on this arena that will be based in Atlanta.

Timing

Atlanta remains on an upward trajectory from a cyclical standpoint, partly because we were late to recover from the last downturn. The local economy is strong and becoming even more diversified. The housing market has recovered but is not driving the economy like it did previously. Most importantly, the ratio of population to job growth has been very healthy since 2010, unlike much of the previous decade when population gains far outstripped economic expansion. The inflection point will come when this demand-driven real estate boom transitions to capital driven, as past cycles attest.

FIVE SURPRISES OF 2016

Last year was full of surprises, both nationally and locally. A few things caught our attention on the home front.

- **The volume of real estate activity around the new SunTrust Park**, both in terms of projects currently underway and announced. When news broke of the Braves move to Cobb County in 2013, few realized the impact it would have on the Cumberland/Galleria area.
- **The achievable rents of loft office developments**. This product type has always been a popular affordable alternative, but now some projects are achieving rents in excess of \$30 per square foot, surpassing Class A office towers in comparable locations.
- **The continued success of new intown Atlanta apartments**. The intown market has been flooded with apartments since 2014, but occupancy remains strong, lease-up velocity is steady, and rents continue to rise, albeit at a moderated pace.
- **City-owned assets slated for redevelopment remain on the market**. While Georgia State University purchased Turner Field and the surrounding land, two high-profile redevelopments are stuck in neutral. The Civic Center redevelopment took a step backward as Weingarten Realty dropped its plans, and WRS Realty continues to try to tackle Underground Atlanta.
- **The restraint of the lending community**. Following three years of supply flooding the market, the pace of new apartment announcements has tapered off considerably. Speculative office development has yet to reappear in any significant way, and new condominium development is limited to luxury projects in prime locations.

RECENT ENGAGEMENTS

JWA Ventures, LLC is planning a town center development in suburban Charleston. The master plan envisions apartments over retail space that would be delivered in multiple phases. The developer requested an analysis of the marketability of the proposed apartments. In addition to research on the local apartment market, case studies were prepared of comparable town center developments with a multifamily component.

Two families that own adjoining income-producing properties in Atlanta's urban core hired our firm to assist with their investment strategy. We first evaluated the current income stream, lease structures, and tenant mix. We then weighed that income stream against

the merits of potential redevelopment of both properties in order to help formulate the optimal investment strategy for each family. Ultimately, we were retained to assist the families in the property's disposition.

Our company provides real estate advisory services to Hollingsworth Funds, which has extensive land holdings in Verdae, a master-planned community in Greenville, South Carolina. Most recently, we assisted the fund in formulating a 2017 disposition and pricing strategy for selected undeveloped parcels. An analysis of recent economic and real estate market trends in Greenville, as well as a review of recent activity in Verdae, provided the foundation for our recommendations.